FORTUNE BRANDS INC
Form 10-K
February 27, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008

Commission file number 1-9076

Fortune Brands, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**13-3295276**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

520 Lake Cook Road, Deerfield, IL 60015-5611

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code: (847) 484-4400

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $3.125 per share	New York Stock Exchange, Inc.
$2.67 Convertible Preferred Stock, without par value	New York Stock Exchange, Inc.
8 5/8% Debentures Due 2021	New York Stock Exchange, Inc.
7 7/8% Debentures Due 2023	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

(Do not check if a smaller

reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ¨ No x

The aggregate market value of registrant s voting stock held by non-affiliates of registrant, at June 30, 2008 (the last day of our most recent second quarter), was $9,472,763,986.31. The number of shares outstanding of registrant s common stock, par value $3.125 per share, at February 6, 2009, was 150,150,830.

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DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the Proxy Statement for the Annual Meeting of Stockholders of registrant to be held on April 28, 2009 (to be filed not later than 120 days after the end of registrant s fiscal year) (the 2009 Proxy Statement) is incorporated by reference into Part III hereof.

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PART I

Item 1. Business.

(a) General development of business.

Fortune Brands, Inc. is a holding company with operating companies engaged in the manufacture, production and sale of distilled spirits, home and hardware products, and golf products. References to we, our and the Company refer to Fortune Brands, Inc. and its consolidated subsidiaries as a whole, unless the context otherwise requires.

The Company was incorporated under the laws of Delaware in 1985 and until 1986 conducted no business. Prior to 1986, the businesses of the Company s subsidiaries were conducted by American Brands, Inc., a New Jersey corporation organized in 1904 (American New Jersey), and its subsidiaries. American New Jersey was merged into The American Tobacco Company (ATCO) on December 31, 1985, and the shares of the principal first-tier subsidiaries formerly held by American New Jersey were transferred to the Company. In addition, the Company assumed all liabilities and obligations in respect of the public debt securities of American New Jersey outstanding immediately prior to the merger. On May 30, 1997, the Company s name was changed from American Brands, Inc. to Fortune Brands, Inc. (Fortune Brands).

As a holding company, the Company is a legal entity separate and distinct from its subsidiaries. Accordingly, the right of the Company, and thus the right of the Company s creditors (including holders of debt securities and other obligations) and stockholders to participate in any distribution of the assets or earnings of any subsidiary is subject to the claims of creditors of the subsidiary, except to the extent that claims of the Company itself as a creditor of such subsidiary may be recognized, in which event the Company s claims may in certain circumstances be subordinate to certain claims of others. In addition, as a holding company, a principal source of the Company s unconsolidated revenues and funds is dividends and other payments from subsidiaries. The Company s principal subsidiaries currently are not limited by long-term debt or other agreements in their abilities to pay cash dividends or to make other distributions with respect to their capital stock or other payments to the Company.

Fortune Brands success is driven by leading consumer brands in three categories: distilled spirits, home and hardware products and golf products. First, we strive to enhance shareholder value by profitably building leading consumer brands to drive sales and earnings growth and enhance returns on a long-term basis. We succeed by positioning our brands and businesses to outperform their respective markets. We do this by developing innovative new products and effective marketing programs, expanding customer relationships, extending brands into adjacent categories and developing international growth opportunities. Second, we pursue business improvements by operating lean and flexible supply chains and business processes. Third, we promote organizational excellence by developing winning cultures and associates. Fourth, we seek to enhance returns by leveraging our breadth and balance and financial resources to drive shareholder value. While our first priority is internal growth, we also strive to create shareholder value through add-on acquisitions, dispositions and joint ventures. In addition, over time, we enhance shareholder value through other initiatives, such as using our financial resources to repurchase shares and pay dividends.

We made the following acquisitions and divestitures in recent years:

In 2008:

> We acquired the premium Cruzan rum business from Pernod Ricard S.A. (Pernod Ricard) for $103.2 million in cash (September 2008).

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> We repurchased the 10% minority interest in our Spirits business from Vin & Sprit Group (V&S) for $455.0 million (July 2008). In addition, we redeemed the 49% interest in our Spirits business s U.S. distribution joint venture held by V&S (September 2008). In a related transaction, we received $230.0 million from Pernod Ricard for early termination of the U.S. distribution agreement with V&S subsequent to its acquisition by Pernod Ricard.

In 2007:

> We sold the William Hill and Canyon Road wine brands and related assets to E. & J. Gallo Winery (August 2007).

> We sold the remaining U.S. wine assets to Constellation Brands, Inc. for $887.0 million (December 2007).

> We sold the U.S. distribution rights and related assets for The Dalmore Scotch Whisky to UB Group for $58.0 million (December 2007).

In 2006:

> We acquired SBR, Inc. (now Simonton Holdings, Inc.), a company of brands including Simonton Windows, a leading vinyl-framed window brand in North America, for a total cost of $599.8 million (June 2006).

> We sold the Cockburn s port wine production assets, retaining the ownership of the brand and worldwide intellectual property rights, for $66.4 million (July 2006).

In 2005:

> We acquired more than 25 spirits and wine brands as well as certain distribution assets in key markets from Pernod Ricard S.A. for a total cost of approximately $5.25 billion. Among the brands acquired were Sauza tequila, Maker s Mark bourbon, Courvoisier cognac, Canadian Club whisky, Laphroaig single-malt Scotch and Clos du Bois super-premium wines (July 2005).

> We completed the spin-off of the Office products business, ACCO World Corporation, to the Company s shareholders.

In 2004:

> Therma-Tru Holdings, Inc. acquired Sentinel Doors Ltd., a leading U.K. manufacturer and installer of complete composite entry door systems, and Master Lock Company acquired the assets of Dudley Inc., a leading brand of school locker locks in Canada. The aggregate purchase price of these two acquisitions was $30.9 million (June 2004).

On an ongoing basis, we review the portfolio of brands owned by our operating companies and evaluate options for increasing shareholder value. Although no assurance can be given as to whether or when any acquisitions or dispositions may be made, we could finance acquisitions by issuing additional debt or equity securities. The possible additional securities from any completed acquisitions could increase the Company s indebtedness or shares outstanding, and these debt or equity securities might impact the Company s diluted earnings per share. We also consider other corporate strategies intended to enhance shareholder value, including share repurchases and higher dividend payments. We cannot predict whether or when any particular strategy might be implemented or what the financial effect thereof might be upon the Company s results of operations, cash flows or financial condition.

Forward-Looking Statements

This Annual Report on Form 10-K contains statements relating to future results. Readers are cautioned that these are forward-looking statements, as defined in the Private Securities Litigation

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Reform Act of 1995 that involve a number of risks and uncertainties. Readers are cautioned that these forward-looking statements speak only as of the date hereof, and the Company does not assume any obligation to update, amend or clarify them to reflect events, new information or circumstances occurring after the date of this Report. Actual results may differ materially from those projected as a result of certain risks and uncertainties, including but not limited to:

- general economic conditions, including the U.S. housing market,
- competitive market pressures (including pricing pressures),
- customer defaults and related bad debt expense,
- any possible downgrades of the Company s credit ratings,
- consolidation of trade customers,
- successful development of new products and processes,
- ability to secure and maintain rights to intellectual property,
- risks pertaining to strategic acquisitions and joint ventures, including the potential financial effects and performance of such acquisitions or joint ventures, integration of acquisitions and the related confirmation or remediation of internal controls over financial reporting,
- changes related to the U.S. and international distribution structure in the Company s Spirits business,
- ability to attract and retain qualified personnel,
- weather,
- risks associated with doing business outside the United States, including currency exchange rate risks,
- commodity and energy price volatility,
- costs of certain employee and retiree benefits and returns on pension assets,

> dependence on performance of distributors and other marketing arrangements,

> the impact of excise tax increases on distilled spirits,

> changes in golf equipment regulatory standards and other regulatory developments,

> potential liabilities, costs and uncertainties of litigation,

> impairment in the carrying value of goodwill or other acquired intangible assets,

> historical consolidated financial statements that may not be indicative of future conditions and results,

> interest rate fluctuations, and

> volatility of financial and credit markets, which could affect access to capital for the Company, its customers and consumers, as well as other risks and uncertainties detailed from time to time in the Company s Securities and Exchange Commission filings.

(b) Financial information about industry segments.

See Note 21, Information on Business Segments, to the Consolidated Financial Statements, Item 8 to this Form 10-K.

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(c) Narrative description of business.

The following is a description of the business of the subsidiaries of the Company in the Spirits, Home and Hardware, and Golf business segments. For financial information about these business segments, see Note 21, Information on Business Segments, to the Consolidated Financial Statements, Item 8 to this Form 10-K.

Spirits

Beam Global Spirits & Wine, Inc. (BGSW or the Spirits business) is a holding company in the distilled spirits industry. The Company s major subsidiaries include Jim Beam Brands Co. (JBBCo.), Jim Beam Brands Australia Pty. Limited, Beam Global España S.L., Beam Global Spirits & Wine (U.K.) Ltd., Tequila Sauza S.A. de C.V., Alberta Distillers Limited, Canadian Club Canada, Inc., Maker s Mark Distillery, Inc., Courvoisier S.A.S. and Jim Beam Brands Canada LP.

The Spirits business sells its products under a number of trademarks which are key to the continued success of our brands. The Spirits business owns key trademarks, including global brands Jim Beam (#1 bourbon), Maker s Mark (#1 super-premium bourbon), Sauza (#2 tequila), Canadian Club (#2 Canadian whisky), Laphroaig (#1 single Islay malt Scotch whisky) and Courvoisier (one of the world s leading cognacs). The Company s trademarks for its strong national and regional brands include: Teacher s (Scotch whisky), Larios (gin), Whisky DYC (whisky), Cruzan (rum), Harveys (sherries), Cockburn s (port) and Kuemmerling (bitters). Several trademarks are used under long-term licenses, including the mark DeKuyper (the #1 cordials line in the U.S.) which is produced and sold in the U.S. and Mexico under a license of unlimited duration and Gilbey s (gin and vodka in the U.S.), which is produced and sold in the U.S. under a license that has a current term until 2027 if not renewed.

Our spirits products are sold through recognized industry channels, including the Maxxium Worldwide B.V. (Maxxium) joint venture in which the Spirits business is a partner and shareholder, third party distributors, and direct distribution in certain international markets, as well as global or regional duty free customers. Products are also sold through government-controlled liquor authorities in the 18 control states (and one county) in the U.S. that have established government control over certain aspects of the purchase and distribution of alcoholic beverages. The peak season for the Spirits business is the fourth quarter due to holiday buying.

In September 2008, we acquired the premium Cruzan rum business from Pernod Ricard for $103.2 million in cash. Also in September 2008, we closed on a transaction that resulted in the early termination of the U.S. distribution agreement between our Spirits business and the U.S. business of V&S acquired by Pernod Ricard. Under the agreement, Pernod Ricard paid us $230.0 million in cash in exchange for early termination of the distribution agreement. As a part of the early termination, we redeemed the 49% interest in the Future Brands LLC (Future Brands), the U.S. distribution joint venture, held by V&S. Future Brands was consolidated as of September 30, 2008 and the consolidation did not have a material impact on the financial statements. The Spirits business now operates its own dedicated sales force in the U.S.

In December 2007, we sold the remainder of our U.S. wine assets to Constellation Brands Inc. (Constellation) for $887.0 million after selling two wine brands and related assets to E. & J. Gallo Winery in August 2007. The two transactions are collectively referred to as the sale of the U.S. Wine business. The sale to Constellation included Beam Wine Estates, Inc. s table wine brands (including Clos du Bois, Geyser Peak, Wild Horse), as well as the associated vineyards and winemaking assets, though not its fortified wine brands (Harveys sherries and Cockburn s port). In addition, in December 2007, we also sold the U.S. distribution rights and related assets of The Dalmore Scotch Whisky to UB Group for $58 million.

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In July 2006, we sold the Cockburn s port wine production assets for $66.4 million, but retained the ownership of the brand and worldwide intellectual property rights.

In July 2005, the Company executed contracts to purchase more than 25 spirits and wine brands as well as certain distribution assets (the 2005 Spirits Acquisition) from Pernod Ricard. Brands acquired include Sauza tequila, Maker s Mark bourbon, Courvoisier cognac, Canadian Club whisky, Laphroaig single-malt Scotch, Clos du Bois wines (sold December 2007), and leading regional and national brands and distribution operations in the U.K., Germany and Spain. The total recorded investment for the 2005 Spirits Acquisition was approximately $5.25 billion.

Principal markets for the products of the Spirits business are the U.S., the U.K., Australia, Spain, Germany and Mexico. Approximately 48% of our Spirits business s sales are to markets outside the U.S.

BGSW is a partner in Maxxium, an international sales and distribution joint venture. BGSW has a 25% ownership interest in Maxxium. The Company s other equal partners in Maxxium are Rémy Cointreau S.A. (Rémy), The Edrington Group Ltd. (TEG) and V&S. In November 2006, Rémy gave notice to Maxxium that it will terminate its distribution agreement with Maxxium effective March 30, 2009. In September 2008, we entered into a Settlement Agreement (Settlement Agreement) with the Maxxium partners that resulted in the termination of V&S s distribution agreement with Maxxium effective September 30, 2008 and will result in the exit of V&S and Rémy as shareholders of Maxxium effective March 30, 2009. We evaluated the expected impact of V&S and Rémy s exit on Maxxium s financial position and results of operations, and believe that our investment in Maxxium of $54.3 million is recoverable. For additional information, refer to Note 7, Related Party Transactions, to the Consolidated Financial Statements, Item 8 of this Form 10-K.

In September 2008, BGSW and TEG agreed to establish an international distribution alliance in 24 Maxxium markets beginning April 1, 2009. This alliance will simplify our routes to market allowing greater control over our distribution. The alliance provides that BGSW and TEG will have equal joint ownership of sales and distribution companies in certain markets and that BGSW-controlled or TEG-controlled distribution companies will distribute both companies products in certain other markets, while select Maxxium units will be sold to third parties. BGSW and TEG will work together to facilitate an orderly transition or winding down of Maxxium operations.

The distilled spirits industry is highly competitive. Based on information from independent industry statistical sources, our Spirits business is the largest U.S.-based producer and marketer of distilled spirits and is the 4th largest premium spirits company in the world. We compete on the basis of product quality, brand image, price, service and innovation in response to consumer preferences. Major competitors include Diageo, Pernod Ricard, Bacardi, Brown-Forman and Rémy.

Because whiskeys/whiskies, cognacs, brandies, ports, rum and some tequila varieties are aged for various periods (generally from three to ten years for whiskies, for example), the Spirits business maintains substantial inventories of maturing product in warehouse facilities. Production of maturing inventory is generally scheduled to meet demand years into the future, and production schedules are adjusted from time to time to bring inventories into balance with estimated future demand. In addition, the Spirits business may, from time to time, seek to purchase maturing spirits to meet estimated future demand or sell excess maturing spirits.

The principal raw materials for the production, storage and aging of distilled products are primarily corn and other grains for whiskeys/whiskies and other spirits, agave for tequila, molasses for rum, new or used oak barrels and glass for bottles. These materials are generally readily available from a number of sources except that new oak barrels are available from only a few sources. JBBCo. has a long-term supply agreement with a third-party supplier for the purchase of new oak barrels. This agreement requires a minimum of three years notice prior to termination. JBBCo. purchases barrels from two other suppliers on a year-to-year basis pursuant to purchase orders.

The principal raw materials used in the production of cognacs and fortified wines are grapes, barrels and glass for bottles. Grapes are purchased primarily from independent growers under long-term supply contracts or purchased on the spot market, and, from time to time, are affected by weather and other forces that may impact production and quality.

The production, storage, transportation, distribution and sale of our Spirits products are subject to regulation by federal, state, local and foreign authorities. Various countries and local jurisdictions prohibit or restrict the marketing or sale of distilled spirits and fortified wines in whole or in part.

In many of the key markets for our Spirits business, distilled spirits are subject to federal excise taxes and/or customs duties as well as state/provincial, local and other taxes. Beverage alcohol sales could be impacted by higher excise tax rates. Although no federal excise tax increase is presently pending in the U.S., our largest market, many states are considering possible excise tax increases and the possibility of future increases cannot be ruled out. In April 2008, the Australian government increased excise taxes on ready-to-drink spirits products by 70%, equating to a 25% price increase to consumers, which adversely impacted demand for Beam s pre-mixed products including Jim Beam and Cola. Operating income will continue to be negatively impacted by the excise tax increase until its impact is annualized at the end of April of 2009. Excise or other tax increases are also considered from time to time in other key markets such as the U.K., Spain and Mexico. The effect of any future excise tax increases in any jurisdiction cannot be determined, but it is possible that any future excise tax increases could have an adverse effect on our financial results.

Home and Hardware

Fortune Brands Home & Hardware LLC (Home and Hardware) is a holding company for subsidiaries in the home products industry. Subsidiaries include MasterBrand Cabinets, Inc. (MasterBrand Cabinets), Moen Incorporated (Moen), Therma-Tru Corp. (Therma-Tru), Simonton Holdings, Inc. (Simonton) and Fortune Brands Storage and Security LLC (Storage and Security). Home and Hardware s operating companies compete on the basis of innovation, fashion, product quality, price, service and responsiveness to distributor and retailer needs, and end-user consumer preferences. The home and hardware industry is highly competitive. Factors that affect our Home and Hardware business s results of operations include levels of home improvement and residential construction activity, principally in the U.S. Approximately 14% of Home and Hardware s sales are to international markets.

MasterBrand Cabinets manufactures custom, semi-custom, stock and ready-to-assemble cabinetry for the kitchen, bath and home. MasterBrand Cabinets sells under brand names including Aristokraft, Omega, Kitchen Craft, Schrock, Diamond, HomeCrest, Decorá and Kemper. MasterBrand Cabinets sells directly to kitchen and bath specialty dealers, home centers, wholesalers and large builders. MasterBrand Cabinets competitors include Masco, American Woodmark and Norcraft Companies, as well as a large number of small suppliers. MasterBrand Cabinets is the second largest manufacturer of kitchen and bath cabinetry in North America.

Moen manufactures faucets, bath furnishings, accessories, parts and kitchen sinks in North America and China. Sales are made through Moen s own sales force and independent manufacturers representatives, primarily to wholesalers, mass merchandisers, home centers and industrial distributors. Products are sold principally in the U.S. and Canada and also in China, Mexico and

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South America. Moen s chief competitors include Masco, Black & Decker, Kohler, American Standard and imported private-label brands. Moen is the #1 faucet brand in North America according to an independent industry survey.

Therma-Tru is the #1 residential entry door brand in the United States. Therma-Tru manufactures fiberglass and steel residential entry door and patio door systems, primarily for sale in the United States and Canada. In 2008, Therma-Tru withdrew from the U.K. door market. Therma-Tru s principal customers are home centers and millwork building products distributors that provide products to the residential new construction market and home centers, as well as to the remodeling and renovation markets. Therma-Tru s competitors include Masonite, JELD-WEN and Plastpro.

In June 2006, we acquired SBR, Inc., a privately held company consisting of brands including Simonton Windows, a leading brand of vinyl-framed windows and patio doors. Simonton products are principally manufactured and sold in the United States. Simonton s principal customers are home centers, wholesale distributors and specialty dealers that provide products to the residential market, primarily for both retrofit and new construction applications. Simonton s competitors include Silverline, Atrium and Milgard.

Storage and Security is comprised of the Master Lock and Waterloo product lines. Master Lock manufactures and sells key-controlled and combination padlocks, bicycle and cable locks, built-in locker locks, door hardware, automotive, trailer and towing locks and other specialty safety and security devices. Products designed for consumer use are sold to wholesale distributors, home centers and hardware and other retail outlets. Lock systems are sold to industrial and institutional users, original equipment manufacturers and retail outlets. Master Lock competes with Abus, W.H. Brady, Hampton, Kwikset, Schlage and various imports. Waterloo manufactures tool and garage storage products, principally high-quality steel toolboxes, tool chests, workbenches and related products. Waterloo sells to Sears for resale under the Craftsman brand owned by Sears, and under the Waterloo brand name to specialty industrial and automotive dealers, mass merchandisers, home centers and hardware stores. Waterloo competes with Snap-On, Kennedy, Stanley, Stack-On and others in the metal storage segment, and with Stanley, Keter, Rubbermaid and others in the plastic hand box category. Waterloo is the #1 tool storage manufacturer in the U.S.

Product branding and innovation are important to the success of the Home and Hardware business. In addition to the previously discussed trademarks, patent protection helps distinguish our unique product features in the market by preventing copying and making it more difficult for competitors to benefit unfairly from our design innovation. The Home and Hardware business holds U.S. and foreign patents covering various features used in our faucet and bath furnishings, entry doors, windows, locks and security products as well as storage products.

Raw materials used for the manufacture of products offered by Home and Hardware s operating companies are primarily red oak, maple and pine lumber, particleboard, rolled steel, brass, zinc, copper, nickel, aluminum, glass and various plastic resins. These materials are available from a number of sources. Volatility in the prices of commodities and energy used in making and distributing our products impacts the cost of manufacturing our products. In 2007 and 2008, the Home and Hardware business experienced fluctuations in commodity and energy-related costs. While in the past we have been able to mitigate the impact of commodity cost increases through productivity improvements and passing on increased costs to our customers, there is no assurance that we will be able to offset such cost increases in the future.

Golf

Acushnet Company (Acushnet), together with its subsidiaries, is a leading manufacturer and marketer of golf balls, golf clubs, golf shoes and golf gloves. Other products include golf bags, golf outerwear

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and accessories. Acushnet s leading brands are Titleist and Pinnacle golf balls; Titleist and Cobra golf clubs; Scotty Cameron by Titleist putters; Vokey Design wedges; FootJoy golf shoes; FootJoy and Titleist golf gloves; and FootJoy outerwear. Acushnet products are sold primarily to on-course golf pro shops and selected off-course golf specialty and sporting goods stores throughout the United States. Sales are made directly in the U.S. and in other key international markets through subsidiaries and outside these areas through distributors or agents. Approximately 42% of Acushnet s sales are to international markets.

Acushnet and its subsidiaries compete on the basis of product quality, product innovation, price, service and responsiveness to consumer preferences. Acushnet has the leading market positions in golf balls (Titleist), golf shoes and golf gloves (FootJoy). Acushnet also is a leading U.S. competitor in golf clubs (Titleist & Cobra). In golf balls, Acushnet s main competitors are Bridgestone, Callaway, Nike, TaylorMade and Srixon. In golf clubs, TaylorMade, Callaway, Ping, Cleveland and Nike are the primary competitors. In golf shoes, Adidas and Nike are the main competitors. In golf gloves, Nike and Callaway are the primary competitors. Acushnet s business is seasonal and approximately 60% of sales occur in the first half of the year and less than 20% in the fourth quarter.

The principal raw materials used in manufacturing are synthetic rubbers, polymers, steel, titanium, and natural and synthetic leathers.

Acushnet s advertising and promotional campaigns feature a large number of touring professionals and club professionals using and endorsing its products. The market for the endorsement and promotional services of touring professionals has been and is expected to be increasingly competitive.

The future success of the Golf business will depend upon continued innovation, product quality and successful marketing across product categories. In addition, international market opportunities, especially in the Pacific Basin region, are contributing to growth for the Golf business.

Branding and product innovation are both important to the success of the Golf business. The Titleist, Cobra, FootJoy and Pinnacle trademarks are of particular importance to the business. Product innovation is a powerful growth engine in the golf segment, and our patent portfolio is an important resource to help inhibit competitors from copying or exploiting our innovations. The Company holds United States and foreign patents covering innovations and design features used in our golf balls, clubs and shoes and holds other licenses, trademarks and tradenames. There continues to be a substantial issue with knock-off and counterfeit golf clubs, which imitate or copy the protected features of original equipment manufacturers golf club products. Acushnet has an active program of enforcing intellectual property rights against those who make or sell these products.

Employees

As of December 31, 2008, the Company and its subsidiaries had the following number of employees:

Spirits	3,279
Home and Hardware	18,409
Golf	5,298
Corporate	114
Total	27,100

Environmental Matters

The Company is subject to laws and regulations relating to the protection of the environment. The Company provides for expenses associated with environmental remediation obligations when such amounts are probable and can be reasonably estimated. We adjust accruals as new information develops or circumstances change, and accruals are not discounted. At December 31, 2008 and 2007, environmental accruals amounted to $29.1 million and $32.1 million, respectively, and are included in non-current liabilities on the balance sheet. In our opinion, compliance with current environmental protection laws (before taking into account estimated recoveries from third parties, including insurers) will not have a material adverse effect upon our results of operations, cash flows or financial condition. See Item 7 Management s Discussion and Analysis of Results of Financial Condition and Results of Operations Pending Litigation Environmental Matters for more information.

(d) Financial Information about Geographic Areas.

We sell products primarily in the United States, Canada, Europe (primarily the U.K, Spain, Germany and France), Australia and Mexico. A change in the value of the currencies of these countries can impact our financial statements when translated into U.S. dollars. The exchange rates between some of the foreign currencies in which our subsidiaries operate and the U.S. dollar have fluctuated significantly in recent years and may do so in the future. We manufacture and source our products in the United States, Europe, Canada, Mexico, China, Thailand and other countries. We are subject to risks associated with changes in political, economic and social environments, local labor conditions, changes in laws, regulations and policies of foreign governments, as well as U.S. laws affecting activities of U.S. companies abroad, including tax laws and enforcement of contract and intellectual property rights. See Note 21, Information on Business Segments, to the Consolidated Financial Statements, Item 8 to this Form 10-K.

Website Access to SEC Reports

The Company s website address is www.fortunebrands.com. The Company s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports are available free of charge on the Company s website as soon as reasonably practicable after the reports are filed or furnished electronically with the Securities and Exchange Commission. We also make available on our website, or in printed form upon request, free of charge, our Corporate Governance Policies, Code of Business Conduct and Ethics, Code of Ethics for Chief Executive Officer and Senior Financial Officers, Charters for the Committees of our Board of Directors and other information related to the Company.

The public may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington D.C. 20549. The public may obtain information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Item 1A. Risk Factors.

We believe that the following risks and uncertainties may be material to our business. Additional risks and uncertainties that we currently consider to be immaterial may also adversely affect our business. If any of the following risks actually occur, our business, results of operations and financial condition could be materially and adversely impacted.

The current global recession and credit crisis may deepen and the recovery may be slow, adversely impacting our financial results and liquidity.

Stable economic conditions and credit availability are important not only to the basic health of our global consumer markets, but also our own financial condition. The major disruptions of global

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financial markets have adversely impacted and may continue to adversely impact our operations with respect to demand for our products. As in past downturns, the current recession has decreased demand and caused consumers to defer discretionary purchases, such as major remodeling projects and the purchase of golf clubs. Other portions of our business may come under pressure if the recession deepens and the recovery is protracted, including the global distilled spirits market, as well as the historically stable golf ball, glove and accessories markets, and the growing Asian golf market. In addition, if the global recession worsens, we may see consumers trade down to lower priced products across all our businesses.

The global recession and credit crisis have adversely impacted the financial stability of our customers which may result in further reductions in customer inventories, as well as higher bad debt expense across our businesses.

A prolonged global economic decline and credit crisis also may impact our access to long-term capital markets, result in increased interest rates on our corporate debt, and weaken operating cash flow and liquidity. Decreased cash flow and liquidity could potentially impact our ability to pay dividends, fund acquisitions, and repurchase shares in the future.

A significant portion of our business is impacted by risks associated with fluctuations in the U.S. housing market.

Our home and hardware products are impacted primarily by demand for remodeling and repair associated with existing homes as well as demand for new homes. Demand for these end uses, particularly in new homes, is significantly influenced by household net worth, affordability, mortgage interest rates and availability, employment and consumer confidence, home prices and the inventory of homes for sale, including home foreclosures, as well as the number of homes constructed and, to a lesser extent, existing home sales. Demographic factors, such as aging housing stock, changes in population growth and household formations, affect levels of home improvement and residential construction over the longer term. While demographic trends are favorable for the long-term growth of the U.S. home products market, it is very difficult to predict the extent and duration of the ongoing downturn in the U.S. home products market as well as its adverse impact on our operating results.

We operate in highly competitive consumer categories.

While we largely compete for customers on the basis of product quality, brand strength and service, price is also an important basis of selection and competition. Our success depends on maintaining the strength of our consumer brands by continuously improving our offerings and appealing to the changing needs and preferences of our customers and end consumers. While our businesses are leaders in their categories and devote significant resources to continuous improvement of their products and marketing strategies, it is possible competitors may improve more rapidly or effectively, adversely affecting our sales, margins and profitability.

Demand for our products and our financial results are dependent on the successful development of new products and processes.

Our success depends in part on fulfilling consumer needs and anticipating changes in consumer preferences with successful new products and product improvements. We aim to introduce products and new or improved production processes on a timely basis to counteract obsolescence and decreases in sales of existing products. While we devote significant focus to the development of new products and to research and development of new approaches to supply, we may not be successful in the development of new products or these techniques, or our new products may not be commercially successful.

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The inability to secure and maintain rights to intellectual property could adversely affect our business.

We have many patents, trademarks, brand names and trade names that are important to our business. Our business could be adversely affected by the loss of any major brand or by infringement of our intellectual property rights. We are also subject to risks in this area because existing patent, trade secret and trademark laws offer only limited protection, and the laws of some countries in which our products are or may be developed, manufactured or sold may not fully protect our products from infringement by others. In addition, others may assert intellectual property infringement claims against us or our customers. With respect to our Golf business, we are subject to intellectual property suits that might cause us to incur significant costs, and if resolved unfavorably, pay significant damages, prohibit us from selling products or delay the introduction of new products.

Downgrades of our credit ratings could adversely affect us.

If Moody s, S&P or Fitch were to downgrade our credit ratings, such a downgrade could result in an increase to our cost of capital and impact our capability to access credit, particularly in the event of a downgrade to a non-investment grade rating. Downgrades of our credit ratings could also affect the value or marketability of our outstanding notes.

Continued consolidation of our trade customers, particularly in the home & hardware industry, could adversely affect our business.

Though large customers can offer efficiencies and unique product opportunities, consolidation increases their size and importance. These larger customers can make significant changes in their volume of purchases, seek price reductions and even become competitors for some products. Further consolidation could adversely affect our margins and profitability, particularly if we were to lose a significant customer.

Risks associated with our ability to continuously improve productivity and supply chain efficiency could adversely affect our business, particularly in an environment of declining market demand.

We need to continually evaluate our manufacturing processes and assess opportunities to reduce costs. Our success also depends in part on refining our cost structure and supply chains to promote a consistently flexible and low cost supply chain that can respond to market pressures to protect profitability and cash flow. Failure to achieve the desired level of flexibility and cost reductions could impair our financial results. Despite proactive efforts to control costs, reduced production in our facilities, resulting from the factors above, could result in lower operating margins and profitability until demand recovers.

Our failure to attract and retain qualified personnel could adversely affect our business.

Our success depends in part on the efforts and abilities of our senior management team and key employees. Their motivation, skills, experience and industry contacts significantly benefit our operations and administration. The failure to attract, motivate and retain members of our senior management team and key employees could have a negative effect on our operating results.

Risks associated with our strategic acquisitions and joint ventures could adversely affect our business.

Our Spirits business is transitioning to new sales and distribution routes to market, both in the U.S. and internationally, following the sale of Vin & Sprit Group to Pernod Ricard S.A. in 2008. In the U.S., we have regained full ownership of the sales and distribution assets formerly held by our joint venture,

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Future Brands LLC. The operations of the Maxxium Worldwide B.V. joint venture, which provides spirits sales and distribution in certain international markets, will cease on March 31, 2009. At that time, distribution in most major international markets will be through an alliance with The Edrington Group that will be a combination of jointly-owned or company-owned sales forces. In 2008, we also acquired Cruzan rum. We will continue to consider acquisitions and joint ventures as a means of enhancing shareowner value. Acquisitions and joint ventures involve risks and uncertainties, including: difficulties integrating acquired companies and operating joint ventures, retaining the acquired businesses customers and brands, and achieving the expected financial results and benefits of transactions, such as revenue increases, cost savings, and increases in geographic or product presence; loss of key employees from acquired companies; implementing and maintaining consistent standards, controls, procedures, policies and information systems; and diversion of management s attention from other business concerns.

Future acquisitions could cause us to incur additional debt, issue shares, increase contingent liabilities, increase interest expense and amortization expense related to intangible assets, as well as experience dilution in earnings per share and return on capital. Future impairment losses on goodwill and intangible assets with an indefinite life, or restructuring charges, could also occur as a result of acquisitions.

Risks associated with interest rate fluctuations, as well as commodity and energy availability, price increases and volatility could adversely affect our business.

We are exposed to risks associated with interest rate fluctuations and commodity price volatility arising from weather, supply conditions, geopolitical and economic variables, and other unpredictable external factors. We buy commodities, including steel, copper, zinc, titanium, glass, plastic, resins, wood, particleboard, grains and grapes. We also grow agave plants for tequila production. Availability, increases and volatility in the prices of these commodities, as well as products sourced from third parties and energy used in making, distributing and transporting our products, could increase the manufacturing costs of our products. While in the past we have been able to mitigate the impact of these cost increases through productivity improvements and passing on increasing costs to our customers, there is no assurance that we will be able to offset such cost increases in the future. While we may use derivative contracts to limit our exposure to commodity price volatility, the exposures under these contracts could still be material to our results of operations and financial condition.

We manufacture and source many products internationally and are exposed to risks associated with doing business globally.

We manufacture and source our products in the United States, Europe, Canada, Mexico, China, Thailand and other countries. Accordingly, we are subject to risks associated with changes in political, economic and social environments, civil unrest, possible expropriation, local labor conditions, changes in laws, regulations and policies of foreign governments, trade disputes with the U.S., as well as U.S. laws affecting activities of U.S. companies abroad, including tax laws and enforcement of contract and intellectual property rights. Exchange rate fluctuations may impact the cost of sourced products and our financial results.

We sell products globally and are exposed to currency exchange rate risks, particularly related to the recent strengthening of the U.S. dollar.

We sell products and produce products in the United States, Europe and other areas (principally Canada, Mexico and Australia). While we hedge certain foreign currency transactions, a change in the value of the currencies will impact our financial statements when translated into U.S. dollars. In

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addition, fluctuations in currency can adversely impact the cost position in local currency of our products, making it more difficult for our operations to compete. The exchange rates between some of the major foreign currencies in which our subsidiaries operate (including the British pound sterling, Australian dollar, euro, Japanese yen, Canadian dollar and Mexican peso) and the U.S. dollar have fluctuated significantly in recent years and may do so in the future. If exchange rates as of December 31, 2008 remain in effect during 2009, our 2009 operating income may be negatively affected by approximately $0.30 to $0.35 per share.

Our businesses rely on the performance of wholesale distributors and other marketing arrangements and could be adversely affected by poor performance or other disruptions in our distribution channels and customers, including financial pressures brought on by the global recession and credit crisis.

Our spirits products are sold principally through wholesale distributors for resale to retail outlets. The replacement, poor performance or financial default of a major distributor or one of its major customers could adversely affect our businesses. Our Home and Hardware business relies on a distribution network comprised of consolidating customers. Any unplanned disruption to the existing distribution could adversely affect our revenues and profitability. A disruption could be caused by the sale of a distributor to a competitor, financial instability or default of the distributor or one of its major customers, particularly as a result of the global recession and continuing credit tightening as well as other unforeseen events.

Costs and funding requirements of certain employee and retiree benefits may continue to rise.

Increases in the costs of medical and pension benefits could continue and negatively affect our business as a result of: increased usage of medical benefits by current and retired employees and medical inflation in the United States; the effect of declines in the stock and bond markets on the performance of our pension plan assets; potential reductions in the discount rate used to determine the present value of our benefit obligations; and changes in law and accounting standards that may increase the funding of, and the expense reflected for, employee benefits.

Changes in regulatory standards could adversely affect our businesses.

In the Golf business, our ability to develop and market new products is potentially hindered by rules governing equipment standards set by industry associations, such as restrictions on golf club head size and shaft length, and the overall distance standard for golf balls. Changes in equipment standards could adversely impact our Golf business. Our Spirits business is subject to extensive regulatory requirements regarding distribution, production, labeling, and marketing. Changes to regulation of the beverage alcohol industry could include increased limitations on advertising and promotional activities or other non-tariff measures that could adversely impact our spirits business.

Increased excise taxes on distilled spirits could adversely affect our Spirits business.

Distilled spirits are subject to excise tax in many countries where we operate. While no federal excise tax increase is presently pending in the United States, our largest market, fiscal pressures are rising dramatically, increasing the risk of a potential federal excise tax increase on spirits. Many states and other jurisdictions are considering possible excise tax increases. The effect of any future excise tax increases cannot be determined, but could have an adverse effect on our business by reducing demand.

Potential liabilities and costs from litigation could adversely affect our business.

Our business is subject to risks related to litigation, including with respect to alcohol-related liability, as well as tobacco products made and sold by former subsidiaries. Our Golf business faces patent

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litigation that could result in significant costs as well as potentially impact our ability to sell products. It is not possible to predict the outcome of pending or future litigation, and, as with any litigation, it is possible that some of the actions could be decided unfavorably.

Historical financial statements may not be reflective of our future financial condition and results of operations due to recent portfolio changes or other reasons.

Although we believe that this report contains all material information that is necessary to make an informed assessment of our assets and liabilities, financial position, profit and losses and prospects, historical financial statements do not necessarily represent what our results of operations or financial position will be for any future periods. Major recent changes and changes in process include regaining full ownership of spirits U.S. distribution in 2008 and the establishment of a new international distribution alliance with The Edrington Group on April 1, 2009. The alliance will be a combination of jointly-owned and company-owned sales forces.

An impairment in the carrying value of goodwill or other acquired intangible assets could negatively affect our operating results and shareholder equity.

The carrying value of goodwill represents the fair value of acquired businesses in excess of identifiable assets and liabilities as of the acquisition date. The carrying value of other intangible assets represents the fair value of trademarks, tradenames and other acquired intangible assets as of the acquisition date. Goodwill and other acquired intangible assets expected to contribute indefinitely to our cash flows are not amortized, but must be evaluated for impairment by our management at least annually. If carrying value exceeds current fair value as determined based on the discounted future cash flows of the related business, the intangible asset is considered impaired and is reduced to fair value via a non-cash charge to earnings. Events and conditions that could result in further impairments include a change in expected global consumer spending and timing of the recovery from the global recession, particularly the impact of the economic environment on our Home and Hardware business, and changes in the industries in which we operate as well as competition and advances in technology, a significant product liability or intellectual property claim, or other factors leading to reduction in expected long-term sales or profitability. If the value of goodwill or other acquired intangible assets is impaired, our earnings and shareholders equity could be adversely affected.

Various other external conditions such as weather could adversely impact our sales, profitability, and cash flow from operations.

Weather conditions are also a factor impacting year-to-year comparisons in our Golf business as well as our U.S. manufacturing capabilities. Specifically, adverse weather conditions can erode annual rounds of play, thus decreasing the demand for our golf products. In addition, extreme weather events could potentially disrupt the Company s supply chain coordination in the event of damage to our facilities or the inventory located at our facilities.

Item 1B. Unresolved Staff Comments.

None

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Item 2. Properties.

The Company leases principal executive offices in Deerfield, Illinois. The following table indicates the principal properties of the Company and its subsidiaries as of December 31, 2008:

Segment	Manufacturing Plants		Distribution Centers		Warehouses		Other[(a)]	
	Owned	Leased	Owned	Leased	Owned	Leased	Owned	Leased
Spirits								
U.S.	5				9	1		
Europe	12		1		11			
Mexico	1	1			2	5		
Asia	1			13		4		
Canada	1				1			
Australia/New Zealand								
Home and Hardware								
U.S.	33	6	2	17	1	6		
Canada		2		2		3		
Mexico	3		1	1				
Asia	1	2		2		1		
Europe				1				
Central America				1				
Golf								
U.S.	4	1	1	2			2	4
Asia	2	1	1	6				
Europe			1	1				3
Australia/New Zealand				2				
Canada				1				
Africa				1				
Corporate								
U.S.								1
Total U.S.	42	7	3	19	10	7	2	5
Total Non-U.S.	21	6	4	31	14	13	0	3
TOTAL	63	13	7	50	24	20	2	8

(a) Other includes research and development facilities, golf club fitting centers and the Fortune Brands Corporate office.

We are of the opinion that the properties are suitable to our respective businesses and have production capacities adequate to meet the needs of our businesses.

Item 3. Legal Proceedings.

Tobacco Overview

On December 22, 1994, we sold The American Tobacco Company (ATCO) subsidiary to Brown & Williamson Tobacco Corporation (B&W), at the time a wholly-owned subsidiary of B.A.T. Industries p.l.c. In connection with the sale, B&W and ATCO, which subsequently merged into B&W, agreed, under an Indemnification Agreement (the Indemnification Agreement), to indemnify Fortune Brands, Inc. against claims including legal expenses arising from smoking and health and fire safe cigarette matters relating to the tobacco business of ATCO.

On July 30, 2004, B&W and R.J. Reynolds Tobacco Holdings, Inc. announced that they had completed the combination of their respective U.S. tobacco businesses, previously conducted by B&W (and ATCO) and R.J. Reynolds Tobacco Co., by forming a new combined company known as

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R.J. Reynolds Tobacco Company. As a result of the combination and in accordance with the Indemnification Agreement, the new R.J. Reynolds Tobacco Company assumed the indemnification obligations under the Indemnification Agreement relating to the U.S. business previously conducted by B&W (and ATCO). B&W has not been released from any of its obligations under the Indemnification Agreement. We refer to B&W and the new R.J. Reynolds Tobacco Company as the Indemnitor under the Indemnification Agreement.

The Indemnitor has complied with the terms of the Indemnification Agreement since 1994 and we are not aware of any inability on the part of the Indemnitor to satisfy its indemnity obligations.

Numerous legal actions, proceedings and claims are pending in various jurisdictions against leading tobacco manufacturers, including B&W both individually and as successor by merger to ATCO, based upon allegations that cancer and other ailments have resulted from tobacco use. The Company has been named as a defendant in some of these cases. These claims have generally fallen within three categories: (i) smoking and health cases alleging personal injury brought on behalf of individual plaintiffs, (ii) smoking and health cases alleging personal injury and other damages and purporting to be brought on behalf of classes of individual plaintiffs, and (iii) health care cost recovery cases, including class actions, brought by foreign governments, unions, health trusts, taxpayers and others seeking reimbursement for health care expenditures allegedly caused by cigarette smoking. Damages claimed in some of the cases range into the billions of dollars.

Pending Cases

As of February 6, 2009, there were approximately eight smoking and health cases pending on behalf of individual plaintiffs in which the Company has been named as one of the defendants, compared with ten cases reported in our Annual Report on Form 10-K for the year ended December 31, 2007. There are no purported smoking and health class actions or health care recovery actions pending against the Company. For a list of pending case, see Exhibit 99 to this Annual Report on Form 10-K.

Terminated Cases

Two cases were terminated in 2008. For a list of terminated cases, see Exhibit 99 to this Annual Report on Form 10-K.

Certain Developments Affecting the Indemnitor

On July 14, 2000, in Engle v. R.J. Reynolds Tobacco Company, et al., a Florida state case brought against B&W (individually and as successor to ATCO) and other U.S. tobacco manufacturers on behalf of a class of Florida residents allegedly injured as a result of their alleged addiction to cigarettes containing nicotine, a jury awarded a total of $144.87 billion in punitive damages against the defendants, including $17.59 billion against B&W. On November 6, 2000, Florida Circuit Judge Robert Kaye upheld this jury award, and held that the class of plaintiffs eligible to recover damages should be extended to smokers with illnesses diagnosed more than four years before the lawsuit was filed in 1994. On May 21, 2003, a Florida appellate court reversed the jury s verdict and damages award and decertified the class. On October 22, 2003, plaintiffs counsel sought review of this decision in the Florida Supreme Court. On July 6, 2006 the Florida Supreme Court vacated the jury s $145 billion punitive damage award and also decertified the class and reinstated compensatory damages to the two named plaintiffs, and permitted individual members of the former class to file separate lawsuits within one year of issuance of the mandate (which was ultimately issued January 11, 2007). On August 7, 2006, both plaintiffs and defendants filed motions for rehearing with the Florida Supreme Court. On December 21, 2006, the Florida Supreme Court denied plaintiffs rehearing motion, and granted in part and denied in part defendants rehearing motion. The

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December 21, 2006 ruling did not amend the July 6, 2006 decision s major holdings, but instead addressed the claims to which the Engle jury s phase one verdict will be applicable in the individual lawsuits that the Florida Supreme Court s decision has permitted. On October 1, 2007, the United States Supreme Court denied defendants motion seeking review by that court. As of December 31, 2008, B&W and/or R.J. Reynolds Tobacco Company had been served in over 3,000 cases brought by individual plaintiffs in state and federal courts in Florida. These cases include claims asserted by over 8,800 individual plaintiffs, and this number may increase as the Florida courts continue to sever cases with multiple plaintiffs. The Company is not a party to the Engle litigation.

In September 1999, the United States government filed a recoupment lawsuit in Federal Court in Washington, D.C. against the leading tobacco manufacturers (including B&W individually and as a successor to ATCO) seeking recovery of costs paid by the Federal government for claimed smoking-related illness. In this action, the U.S. District Court for the District of Columbia dismissed certain counts of the lawsuit, but also ruled that the government may proceed with two counts under the federal RICO statute. On February 4, 2005, the U.S. Circuit Court of Appeals for the District of Columbia held that the government may not, however, seek a disgorgement of defendants profits from the sale of tobacco as a part of its RICO claim. The U.S. Supreme Court denied the government s petition to review the case on October 17, 2005. The trial was concluded in June, 2005. On August 17, 2006, the Court issued its final judgment and remedial order, which found that the defendants violated federal civil RICO law by defrauding the public with regard to smoking and health issues. The court did not award monetary damages to the government, but did order the defendants to, among other things, remove descriptors such as low tar, light or ultra light from cigarette packages and to publish certain corrective statements regarding smoking and health issues. Both the defendants and the government are pursuing appeals of this matter. Oral argument of these appeals was heard on October 14, 2008, and a decision remains pending. The Company is not a party to this action.

On March 21, 2003, a judgment for $7.1 billion in compensatory and $3 billion in punitive damages was entered by an Illinois state court against Philip Morris, Inc. in Price, et al. v. Philip Morris, Inc., a class action alleging that certain advertising for light or low tar cigarettes was deceptive under the Illinois Consumer Fraud Act. On December 15, 2005, the Illinois Supreme Court reversed the judgment and remanded the case to the lower court with instruction to dismiss the case. On November 27, 2006, the U.S. Supreme Court refused to hear plaintiff s appeal and ordered the lower court to dismiss plaintiff s pending motion to vacate. On December 18, 2006, the defendants filed a motion to dismiss and for entry of final judgment with the lower court, which was granted. On January 17, 2007, the plaintiffs subsequently filed a motion in the lower court seeking to vacate or withhold judgment. On August 30, 2007, the lower court dismissed plaintiff s pending motion, effectively concluding the case. On December 18, 2008, plaintiff filed a petition requesting the state court to vacate the Price judgment in light of the U.S. Supreme Court s December 15, 2008 decision in Altria Group, Inc. v. Good. On February 4, 2009, the court dismissed the plaintiff s petition. Class actions involving similar allegations as Price (Howard, et al. v. Brown & Williamson Tobacco Corp. and Turner v. R.J. Reynolds Tobacco Co.) are pending against B&W and R.J. Reynolds Tobacco Company, respectively, in the same court. Proceedings in the Howard and Turner cases have been stayed and otherwise inactive pending resolution of the Price litigation. The Company is not a party to the Price, Howard, Turner or Good litigation.

On December 15, 2008, the U.S. Supreme Court held in Altria Group, Inc. v. Good, a lawsuit pending in federal court in Maine against Philip Morris USA, Inc. and Altria Group, Inc., that federal law did not preempt the plaintiff s assertion of state-law consumer fraud claims under Maine law which alleged that defendants advertising and marketing fraudulently conveyed the message that light cigarettes deliver less tar and nicotine to consumers than regular cigarettes. The Company is not party to the Good litigation.

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Resolution of Health Care Cost Recovery Actions by State, U.S. Territories and the District of Columbia

In 1998, certain U.S. tobacco companies, including B&W, entered into a Master Settlement Agreement (the MSA) with certain state attorneys general that resulted in the dismissal of all remaining health care reimbursement lawsuits brought by 52 government entities, including 46 states, American Samoa, Guam, Puerto Rico, the U.S. Virgin Islands, the Northern Mariana Islands and the District of Columbia. Although the Company is not a party to the MSA and is not bound by any of its payment obligations or other restrictions, the Company understands that it is a released party under the terms of the MSA, which provides for the release of claims not only against participating manufacturers, but also against their predecessors, successors, and past, present and future affiliates.

Under the MSA, participating manufacturers were required to make initial payments through 2003, with additional payments to the settling parties required to continue in perpetuity (starting at $4.5 billion in 2000 and increasing to $9 billion in 2018 and thereafter). Payments to a strategic contribution fund for individual states beginning in 2008 through 2017, and a public health foundation until 2008, are also required. Ongoing payments are to be allocated according to market share and are subject to various credits and adjustments, depending on industry volume. The MSA also calls for the participating manufacturers to pay attorneys fees for the states attorneys in the settled litigation.

Prior to the MSA, health care cost recovery actions filed by the states of Minnesota, Texas, Florida and Mississippi were settled separately on terms that included monetary payments of several billion dollars. The Company was not a party to the Minnesota or Texas action and was voluntarily dismissed from the Florida and Mississippi actions. The Company is not a party to any of these settlements nor is it required to pay any money under these settlements.

Conclusion

It is not possible to predict the outcome of the pending litigation, and it is possible that some of these actions could be decided unfavorably. Management is unable to make a meaningful estimate of the amount or range of loss that could result from an unfavorable outcome of the pending litigation. However, management believes that there are a number of meritorious defenses to the pending actions, including the fact that the Company never made or sold tobacco, and these actions are being vigorously contested by the Indemnitor. Management believes that the pending actions will not have a material adverse effect upon the results of operations, cash flows or financial condition of the Company because it believes it has meritorious defenses and the Company is indemnified under the Indemnification Agreement.

Other Litigation

On February 9, 2006, Callaway Golf Company filed a lawsuit seeking unspecified damages against Acushnet Company in the United States District Court for the District of Delaware. Callaway alleged that models of Pro V1 golf balls then manufactured by Acushnet Company infringed four of Callaway s patents. Acushnet is defending this action vigorously. Acushnet stipulated to infringement and a jury trial on the validity of the patent claims asserted by Callaway was conducted in December 2007. The jury was provided evidence related to nine claims contained in the four patents and returned a mixed verdict, finding one claim invalid and eight claims valid. On November 10, 2008, the trial court issued an order enjoining sales of the accused Pro V1 and Pro V1x golf ball models as of January 1, 2009. Acushnet has appealed this matter to the United States Court of Appeals for the Federal Circuit requesting that the appellate court reverse the verdict, vacate the trial court s injunction and find as a matter of law that Callaway s asserted patents are invalid.

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Separately, subsequent to the trial in the United States District Court, the U.S. Patent and Trademark Office (PTO) issued final actions determining that all four of the patents on which Callaway s infringement claims were based are invalid. The PTO also issued a Right of Appeal Notice on one of the patents, providing Callaway the opportunity to appeal the determination to the Patent Board of Appeals, which Callaway has done.

Acushnet believes, and counsel advises, that it has asserted meritorious arguments in its appeal to the Federal Circuit court. An adverse determination on appeal would likely result in the case being remanded for a trial on damages. It is not possible at this time to assess the likelihood of an adverse outcome or determine a reasonable estimate, or range of estimates, of potential damages. If decided unfavorably, however, the lawsuit could have a material adverse effect on the results of the Company s operations, cash flows or financial condition.

In late 2008, Acushnet introduced what it believes to be non-infringing modified versions of the then current Pro V1 models into the market. In February 2009, Acushnet introduced new improved versions of the Pro V1 models, which it also believes are non-infringing. The on-going proceedings do not relate to Acushnet s modified Pro V1 balls or Acushnet s new 2009 versions of the Pro V1 ball. Callaway has alleged that these products infringe new Callaway patents, but has not filed any litigation related to these claims. Acushnet believes, and outside counsel has advised, that it has meritorious defenses against any such claims. In the event that Callaway pursues these claims in litigation and ultimately prevails, however, Acushnet could potentially lose the ability to sell these products. This could have a material adverse effect on the results of the Company s operations, cash flows or financial condition.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

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PART II

Item 5. Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Quarterly Common Stock Cash Dividend Payments

	2008	2007
Payment date	*Per share*	Per share
March	$ 0.42	$ 0.39
June	0.42	0.39
September	0.44	0.42
December	0.44	0.42
Total	$ 1.72	$ 1.62

We currently expect to pay quarterly cash dividends in the future, but such payments are dependent upon our financial condition, results of operations, capital requirements and other factors, including those set forth under Item 1 Business Forward-Looking Statements.

Quarterly Composite Common Stock Prices

	2008		2007	
	High	*Low*	High	Low
First Quarter	$ 72.58	$ 62.13	$ 86.90	$ 76.58
Second Quarter	$ 74.44	$ 61.91	$ 83.87	$ 78.03
Third Quarter	$ 63.67	$ 51.59	$ 90.80	$ 77.95
Fourth Quarter	$ 57.95	$ 30.24	$ 84.73	$ 72.13

The common stock is listed on the New York Stock Exchange, which is the principal market for this security. The high and low prices are as reported in the consolidated transaction reporting system.

On February 6, 2009, there were 19,444 record holders of the Company s common stock, par value $3.125 per share.

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Stock Performance

The foregoing performance graph is being furnished as part of this Form 10-K solely in accordance with the requirement under Rule 14a-3(b)(9) to furnish our stockholders with such information, and therefore, is not deemed to be filed or incorporated by reference into any filings by the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

Peer Group Index

The Peer Group is composed of the following publicly traded companies in industries corresponding to the Company s current three core businesses:

Spirits: Brown-Forman Corporation, Constellation Brands, Inc., Diageo PLC, Pernod Ricard S.A. and Rémy Cointreau S.A.;

Home and Hardware: The Black & Decker Corporation, Masco Corporation, Newell Rubbermaid Inc. and The Stanley Works; and

Golf: Adidas Salomon AG, Callaway Golf Company, Mizuno Corporation and NIKE, Inc.

Calculation of Peer Group Index

The weighted average total return of the entire Peer Group, for each year, is calculated in the following manner:

(1) the total return of each Peer Group member is calculated by dividing the change in market value of a share of its common stock, assuming periodic dividend reinvestment, by the cumulative value of a share of its common stock at the beginning of the year;

(2) each Peer Group member s total return is then weighted within its industry segment based on its market capitalization at the beginning of the year, relative to the market capitalization of the entire segment, and the sum of such weighted returns results in a weighted average total return for that segment; and

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(3) each segment s weighted average total return is then weighted based on the percentage of sales, excluding excise taxes, of that segment of the Company for the year, as compared with total Company sales, excluding excise taxes, and the sum of such weighted returns results in a weighted average total return for the entire Peer Group.

The Peer Group Index reflects the weighted average total return for the entire applicable Peer Group calculated for the five-year period, starting with a base of $100.

Item 6. Selected Financial Data.

Five-year Consolidated Selected Financial Data

Fortune Brands, Inc. and Subsidiaries

For the year ended December 31,

(In millions, except per share amounts)	*2008*	2007	2006	2005	2004
Operating Data[a]					
Net sales	$ 7,608.9	$ 8,563.1	$ 8,521.0	$ 6,891.0	$ 6,102.2
Depreciation and amortization	265.5	265.0	240.5	219.5	189.0
Operating income	145.6	1,376.3	1,447.9	1,151.3	1,020.1
Interest expense	237.1	293.6	308.8	153.6	74.6
Income taxes	95.6	346.3	299.3	321.8	262.1
Income from continuing operations	158.6	749.5	812.1	577.5	713.2
Income from discontinued operations	152.5	13.1	18.0	43.6	70.6
Net income	311.1	762.6	830.1	621.1	783.8
Basic earnings per common share					
Continuing operations	$ 1.04	$ 4.89	$ 5.44	$ 3.96	$ 4.91
Net income	$ 2.05	$ 4.98	$ 5.56	$ 4.26	$ 5.40
Diluted earnings per common share					
Continuing operations	$ 1.03	$ 4.79	$ 5.31	$ 3.84	$ 4.76
Net income	$ 2.02	$ 4.87	$ 5.42	$ 4.13	$ 5.23
Common Share Data[b]					
Dividends paid	$ 261.2	$ 248.6	$ 224.0	$ 201.6	$ 182.9
Dividends paid per share	$ 1.72	$ 1.62	$ 1.50	$ 1.38	$ 1.26
Average number of basic shares outstanding	151.7	153.1	149.1	145.6	145.1
Book value per share	$ 31.18	$ 36.90	$ 31.08	$ 24.88	$ 21.65
Balance Sheet Data[a]					
Inventories	$ 1,975.4	$ 2,047.6	$ 1,937.8	$ 1,404.8	$ 874.5
Current assets	3,468.1	3,780.9	3,930.1	3,192.7	2,641.9
Working capital	2,278.0	1,687.0	1,414.7	374.8	605.9
Property, plant and equipment, net	1,553.9	1,698.2	1,708.2	1,405.2	1,170.5
Intangible assets, net	6,783.2	8,063.2	8,038.7	6,487.5	3,174.2
Total assets	12,091.9	13,956.9	14,668.3	13,201.5	7,883.6
Short-term debt	36.6	431.0	789.3	934.1	670.2
Long-term debt	4,688.6	3,942.7	5,034.9	4,889.9	1,239.5
Minority interest in consolidated subsidiaries	13.6	558.5	559.7	374.8	358.0
Stockholders equity	4,686.0	5,685.5	4,728.0	3,645.6	3,130.7

[a] Data have been restated to present the U.S. Wine business and Office products business as discontinued operations. Refer to Note 4, Discontinued Operations, to the Consolidated Financial Statements, Item 8 of this Form 10-K for additional information.

[b] On December 31, 2008, there were 19,474 common stockholders of record.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

	Net Sales				
	Year Ended December 31,				
(In millions)	*2008*	*% Change vs. Prior Year*	2007	% Change vs. Prior Year	2006
Spirits	$ 2,480.9	(4.8)%	$ 2,606.8	3.7%	$ 2,513.4
Home and Hardware	3,759.1	(17.4)	4,550.9	(3.1)	4,694.2
Golf	1,368.9	(2.6)	1,405.4	7.0	1,313.4
NET SALES	$ 7,608.9	(11.1)%	$ 8,563.1	0.5%	$ 8,521.0

	Operating Income and Net Income				
	Year Ended December 31,				
(In millions)	*2008*	*% Change vs. Prior Year*	2007	% Change vs. Prior Year	2006
OPERATING INCOME:					
Spirits	$ 543.7	(29.1)%	$ 766.7	16.1%	$ 660.6
Home and Hardware	(465.6)		503.0	(27.7)	695.4
Golf	125.3	(24.3)	165.5	(0.3)	166.0
Corporate expenses	(57.8)	(1.9)	(58.9)	(20.5)	(74.1)
OPERATING INCOME	$ 145.6	(89.4)%	$ 1,376.3	(4.9)%	$ 1,447.9
LESS:					
Interest expense	237.1	(19.2)	293.6	(4.9)	308.8
Other income, net	(279.9)		(37.5)	(6.7)	(40.2)
Income taxes	95.6	(72.4)	346.3	15.7	299.3
Minority interest (income) expense	(65.8)		24.4	(64.1)	67.9
INCOME FROM CONTINUING OPERATIONS	$ 158.6	(78.8)%	$ 749.5	(7.7)%	$ 812.1
INCOME FROM DISCONTINUED OPERATIONS					